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SENSITIVE
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SUBJECT: AUSTRALIA: CONFERENCE ON SOUTH ASIAN ECONOMIC INTEGRATION

¶1. (SBU) SUMMARY: An academic conference examined East Asian development models for application to South Asia. Experts concluded that without further reform, neither the Chinese nor the traditional western development model may be appropriate for South Asia. Conference attendees stressed the constructive role the G20 can play in South Asian development. Australian Trade Minister Crean emphasized support for trade capacity building. While little integration has thus far taken place among South Asian economies, momentum for change is growing. END SUMMARY.

Looking for the Right Development Model

¶2. (SBU) Regional experts discussed prospects for Asian economic integration at an Australian National University conference on February 11-12, 2010. South Asian trade, especially inter-regional trade, is surprisingly low due to political and regulatory barriers. Bilateral trade between India and Pakistan in recent years has amounted to only USD1-2 billion. Participants discussed whether countries such as India, Pakistan or Sri Lanka should adopt development models fashioned after the Washington or Beijing "consensus." Early reforms adopted along these lines in the Philippines and Pakistan were ultimately reversed by subsequent regimes.

¶3. (SBU) Comparisons between Chinese and Indian growth noted the comparatively small size of Indian manufacturing (around 15% of GDP) and the role of residual regulations in constraining manufactured exports, where China retains a lead. This regulatory problem will become significant as 200 million more Indians join the labor market by 2020. As a result of its resistance to allow the vast rural movement of labor to the cities that has occurred in China, Indian economic adjustment will likely be more difficult than in China.

¶4. (SBU) South Asia is making progress on economic and structural reform, but the pace of change differs significantly between countries. India has embraced gradual reform but trade barriers remain. Peking University Professor Yiping Huang stressed the need for a "clear policy" approach, instead of a 5-year plan, and political will for reform. Huang said the Chinese economic development plan, far from being a detailed plan, consists of a gradual approach that is interspersed with policy adjustments which address problems as they arise.

Trade Capacity Building

¶5. (SBU) Australian Trade Minister Simon Crean addressed the conference and described a new Australian policy nexus between aid

and trade, which views investment in "trade capacity building" (TCB) as a major component. TCB aims to assist developing economies with trade negotiations and subsequent "behind-the-border" reform measures that will increase the benefits from opening new markets. Crean said Australia incorporated TCB into the recent FTA between Australia, New Zealand and ASEAN. Director of the Australian Agency for International Development (AusAID) Edward Archibald confirmed to Econoff there is now closer interaction between Austrade, Australia's trade promotion agency, and other aid agencies, though more is needed.

A Role for the G20

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16. (SBU) Indian Professor Rajiv Kumar called for a greater institutionalization of the G20 and the creation of a secretariat to facilitate its economic role, which could extend into development policy. Indonesian Trade Vice Minister Mahendra Siregar also called appealed for the G20 to become a vehicle through which to overcome crises and more easily allow structural adjustment in both developed and developing countries. He noted that Indonesia is sympathetic to discussion of financial matters related to climate change, despite BRIC (Brazil, Russia, India, China) opposition to such a discussion.

17. (SBU) Deputy Secretary for Department of the Prime Minister Gordon de Brouwer is closely involved with the G20 and underscored to Econoff Australia's support for the more inclusive G20 architecture and its ability to react faster to crises than global institutions which are "too slow and bureaucratic." De Brouwer suggested the G20 can help advance development goals through its

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role as a catalyst for policy improvements in other fora, which could include development policy.

18. (U) Comment: Most scholars at the conference seemed to agree that the adoption of various reforms by some South Asian governments has led to a consensus in favor of reform among their populations, which should help make the momentum for reform self-sustaining.

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